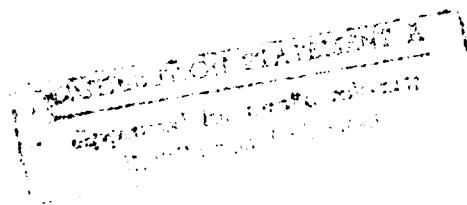


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GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-237260

December 27, 1990

The Honorable Denny Smith
House of Representatives

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ELECTED
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S E D

Dear Mr. Smith:

This report responds to your request that we review certain aspects of the Postal Service's award of an express and priority mail transportation contract to Air Train, Inc. (subsequently renamed Emery Worldwide Airline, Inc.), and the contractor's performance under that contract.

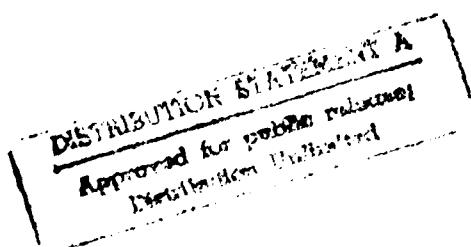
As we explained to your office in February 1990, two matters of concern to you were not reviewed by us because they were included in a lawsuit brought by Evergreen International Airlines, Inc. contesting the award of the contract to Air Train. The matters not reviewed concerned the interpretation of a provision in the solicitation that excluded offerors deriving more than 10 percent of their gross revenue from carrying extremely urgent letters, and whether the Postal Service allowed Air Train, but not other offerors, to submit a second best and final offer. The lawsuit was recently dismissed by the U.S. District Court, but since our audit work was being done while the case was pending, we did not examine these two issues.

In the February briefing, we also informed your office that we had reviewed technical evaluations of competitive proposals received by the Postal Service and found that criteria used in the solicitation and postal procurement regulations were followed. Further, the evaluations did not appear to be biased toward any offeror.

The information provided below responds to your concern about Air Train's capability to fulfill contract requirements.

Results in Brief

The contract with Air Train says that the minimum acceptable performance for meeting express and priority mail delivery times at destination cities is 98 percent of the time. After the initial start-up week, the on-time performance requirement was met for 54 of 57 weeks—August 28, 1989, through September 29, 1990. On-time performance fell below 98 percent for 1 week each in September, October, and December 1989. In addition to the on-time requirement, the contractor is expected to deliver all express and priority mail to destination cities without leaving any mail behind, either at the originating city or at the hub (where the



mail is sorted). Air Train's performance in meeting both standards—being on time and delivering all express and priority mail—fell below 98 percent for a total of 10 out of 57 weeks.

Background

The Postal Service has depended upon contract airlines for the night-time transportation of express and priority mail between a network of major metropolitan areas within the United States for the past several years. The contractor picks up mail at originating cities in the evening, flies it to a "hub" city, sorts it, and transports it back to destination cities by early morning the next day so it can be delivered. The air network operates 5 days a week, except for holidays.

Postal's prior contract, awarded in June 1987 to Evergreen International Airlines, Inc., covered 23 cities and was originally for \$72.3 million per year. This contract provided for periodic price adjustments based on changes in the Consumer Price Index for aviation fuel and labor. Fuel and labor increases of \$15.8 million over 2 years, and \$7.1 million of service changes initiated by the Postal Service, increased the contract to \$95.2 million by August 1989. The Postal Service reported that Evergreen consistently operated in excess of the 98 percent on-time performance, with the exception of the last 2 months of the contract.

According to the Postal Service, it would have continued the contract with Evergreen if a reasonable price could have been obtained. Negotiations were started for a renewal contract covering 30 cities in December 1988. Evergreen's initial offer of \$99.5 million for the renewal contract was believed to be beyond a competitive price range and the Postal Service solicited competitive price proposals from Evergreen and other potential contractors in April 1989. Air Train's best and final offer of \$86.3 million was \$3.8 million lower than Evergreen's best and final offer.

Technical proposals of both companies were scored within one point of each other and the July 1989 contract award to Air Train was based on price. Having assets necessary for contract performance in place before award of the contract was not a prerequisite for an acceptable proposal.

Objective, Scope, and Methodology

To evaluate Air Train's performance from the start of the contract, we (1) interviewed Postal Service officials responsible for awarding and managing the contract at postal headquarters and at Air Train's hub in Indianapolis, Indiana; (2) observed Air Train's operation at the hub and

in Baltimore, Maryland, one of the network cities; and (3) obtained performance data from weekly summary reports prepared by the Postal Service's Air Contracts Management Division for the period beginning August 21, 1989, and ending September 29, 1990.

Our work, including monitoring the status of the lawsuit by Evergreen, was done from September 1989 to September 1990 in accordance with generally accepted government auditing standards.

Contractor Performance

After the initial start-up week, deliveries to the destination cities met the minimum 98 percent on-time requirement for 54 of 57 weeks, August 28, 1989, through September 29, 1990. All 3 weeks were in 1989—September, October, and December.

In addition to meeting specified express and priority mail delivery times in destination cities, the contractor is responsible for delivering all express and priority mail without leaving any mail behind at the originating city or at the hub. Air Train's performance in transporting all express and priority mail and in meeting the on-time requirement fell below 98 percent for a total of 10 weeks during the 57-week test period, excluding the initial start-up week, August 21, 1989.

We discussed the contents of this report with responsible postal officials who agreed with its accuracy. We plan no further distribution of this report until 30 days from its date unless you publicly release its contents. At that time we will send copies to the Postmaster General and officials of his Delivery, Distribution, and Transportation Department. We will also send copies to other interested parties upon request.

The major contributors to this report are listed in the appendix. If you have any questions concerning this report, please call me on 275-8676.

Sincerely yours,



L. Nye Stevens
Director, Government Business
Operations Issues

Major Contributors to This Report

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